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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of

1998 Biennial Regulatory Review --  
Review of ARMIS Reporting Requirements

CC Docket No. 98-117

MCI COMMENTS

MCI Telecommunications Corporation (MCI) hereby submits its comments on the Notice of Proposed Rulemaking in the above-captioned docket.<sup>1</sup> In the Notice, the Commission asks for comment on three specific proposals to reduce Automated Reporting Management Information System (ARMIS) reporting requirements. The Commission also seeks comment on SBC and Ameritech's proposals for extensive revisions to the ARMIS reports. For the reasons discussed below, the Commission should, at a minimum, maintain the level of reporting detail concerning ILEC cost accounting, cost allocation, service quality, and infrastructure development that is captured by the existing ARMIS reports.

I. Notice Proposals

A. Paper Copies

Replacing the paper filing requirement with Internet distribution, as the Commission proposes in the Notice, would improve public access to ARMIS data. The Commission should delegate authority to the Common Carrier Bureau to establish a program for

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<sup>1</sup>1998 Biennial Regulatory Review -- Review of ARMIS Reporting Requirements, CC Docket No. 98-117, FCC 98-147, released July 17, 1998 (Notice).

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providing Internet access to ARMIS data. Until Internet access is available, however, the Commission should not eliminate the requirement that ILECs file paper copies of ARMIS reports. As the Commission discusses in the Notice, members of the public often obtain ARMIS data in paper form.<sup>2</sup>

**B. Elimination of Rows and Columns**

While the payphone, equal access, inside wire, and other rows and columns no longer provide information used by the Commission in regulating ILEC rates, MCI questions whether it is necessary to actually eliminate these rows and columns. To the extent that the ILECs have constructed automated systems for preparing ARMIS reports, and the Commission or others have developed automated systems for analyzing ARMIS reports, unnecessary cost and effort would be incurred in revising these systems to reflect the elimination of the equal access, payphone, and inside wire rows and columns. It would be more efficient for the ILECs to simply leave the equal access, payphone, and inside wire rows and columns unpopulated.

**C. The Commission Should Continue to Require all ILECs to File ARMIS Reports at the Class B Level of Detail**

This proceeding is closely linked to the Commission's CC Docket No. 98-81 Accounting and Cost Allocation Biennial Review proceeding.<sup>3</sup> In that proceeding, the Commission tentatively concluded that mid-sized ILECs should be permitted to keep their

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<sup>2</sup>Notice at ¶3.

<sup>3</sup>In the Matter of 1998 Biennial Regulatory Review -- Review of Accounting and Cost Allocation Requirements, Notice of Proposed Rulemaking, CC Docket No. 98-81, released June 17, 1998 (Accounting Review Notice).

accounts at the Class B level of detail.<sup>4</sup> Accordingly, in this proceeding, the Commission tentatively concludes that mid-sized ILECs should be permitted to file their ARMIS reports at the Class B level of detail.

As MCI discussed in its comments in CC Docket No. 98-81, there are several reasons why the Commission should continue to require Class A accounting for all ILECs, including mid-sized ILECs. First, with Class B accounting the Commission would lose a significant amount of cost and revenue detail that has proven invaluable in tariff investigations.<sup>5</sup> Second, as the Commission discussed in the Accounting Review Notice, “[t]he level of detail of the Class A accounting rules allows [the Commission] to identify potential cost misallocations beyond those revealed by the Class B systems of accounts.”<sup>6</sup> Third, the Commission and state regulators have, in the recent past, relied on Class A accounting to estimate ILECs’ avoided costs of providing wholesale services,<sup>7</sup> improve cost allocations,<sup>8</sup> and determine pole attachment fees.<sup>9</sup> Fourth, the highly aggregated local

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<sup>4</sup>Id. at ¶¶3-8.

<sup>5</sup>In the Matter of 1997 Annual Access Tariff Filings, Memorandum Opinion and Order, CC Docket No. 97-149, rel. December 1, 1997, at ¶183 (The Commission examined billing and collection revenues, a Class A account, in determining that Pacific Bell and GTE’s proposed rates were unreasonable.)

<sup>6</sup>Accounting Review Notice at ¶6.

<sup>7</sup>In the Matter of Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order, rel. August 8, 1998, at ¶¶898-906, 917-918.

<sup>8</sup>In the Matter of Access Charge Reform, Third Report and Order, CC Docket No. 96-262, rel. November 26, 1997.

<sup>9</sup>Notice at ¶10.

service revenue reporting under Class B accounting would limit the Commission's ability to track competitive changes in the local markets served by mid-sized ILECs.

Because the Commission should continue to require all ILECs, including mid-sized ILECs, to maintain their accounts at the Class A level of detail, it should not eliminate the requirement that mid-sized ILECs file their ARMIS reports at the Class A level of detail.

## **II. The Commission Should Not Adopt the SBC and Ameritech Proposals to Reduce the Level of Reporting Detail**

In addition to the specific proposals in the Notice, the Commission seeks comment on proposals for changes to ARMIS that have been advanced by Ameritech in its March 13, 1998 letter and by SBC in its "Petition for Section 11 Biennial Review." Generally, Ameritech and SBC propose that the Commission eliminate part or all of several existing ARMIS reports, contending that the information provided by these reports is not required when an ILEC is regulated under price caps. Ameritech and SBC also suggest consolidating the existing ARMIS reports into a smaller number of reports "to avoid duplication of information."<sup>10</sup>

### **A. The Commission Should Not Eliminate Reporting of any Information Currently Provided in the ARMIS 43-01, 43-02, 43-03, and 43-04 Reports**

Contrary to the ILECs' contention, the adoption of price cap regulation has not reduced the importance of the accounting information and cost allocation detail provided in the ARMIS 43-01, 43-02, 43-03 and 43-04 reports. Even under price caps, the Commission's regulatory mechanisms continue to rely on accounting costs to a significant extent. First, the Commission's price cap plan continues to permit a low-end adjustment

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<sup>10</sup>SBC Petition at 13.

when an ILEC's interstate rate of return falls below 10.25 percent.<sup>11</sup> Second, the price cap rules permit ILECs to file rate increases that exceed their applicable price cap indices, provided that they satisfy a stringent cost showing.<sup>12</sup> Third, under the Commission's price cap plan, exogenous cost changes continue to be computed with reference to accounting costs. Fourth, price cap ILECs continue to develop their subscriber line charge (SLC) with reference to accounting costs.<sup>13</sup> In addition to the direct role that accounting costs play in the Commission's price cap plan, the Commission continues to monitor the ILECs' interstate earnings as part of its overall evaluation of the reasonableness of the price cap regime.<sup>14</sup>

Given the continued importance of accounting costs, the original mission of the ARMIS reports -- "to facilitate the timely and efficient analysis of revenue requirements and rates of return, to provide an improved basis for audit and other oversight functions, and to enhance [the Commission's] ability to quantify the effects of alternative policy proposals"<sup>15</sup> -

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<sup>11</sup>In the Matter of Price Cap Performance Review for Local Exchange Carriers, Fourth Report and Order, CC Docket No. 94-1, released May 21, 1997, at ¶127 (1997 Price Cap Performance Review Order), appeal pending sub nom., United States Telephone Association v. Federal Communications Commission, No. 97-1469 (D.C. Cir.).

<sup>12</sup>See Accounting Safeguards Order at ¶271 (citing Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6786, 6823, ¶¶303-304 (1990)).

<sup>13</sup>47 C.F.R. §69.152(b)(1).

<sup>14</sup>In the Matter of Price Cap Performance Review for Local Exchange Carriers, First Report and Order, 10 FCC Rcd 8961 (1995) (1995 Price Cap Performance Review Order).

<sup>15</sup>In the Matter of Automated Reporting Requirements for Certain Class A and Tier 1 Telephone Companies, Report and Order, 2 FCC Rcd 5770 (1987) (ARMIS Order).

- is still valid. For example, the ARMIS 43-04 report's Part 69 cost allocation detail, whose utility is questioned by SBC,<sup>16</sup> is still routinely used in computing exogenous cost changes for price cap carriers. The ARMIS 43-04 report's separations detail, whose utility is also questioned by SBC, is the primary tool for the Commission to "quantify the effects of alternative policy proposals"<sup>17</sup> in the recently-initiated separations reform proceeding.<sup>18</sup>

Similarly, the detail provided in the ARMIS 43-03 report is still necessary for the Commission to "determine whether joint costs incurred in providing regulated and nonregulated services are properly allocated between these types of services in order to protect the regulated ratepayers from subsidizing the nonregulated activities."<sup>19</sup> Only eighteen months ago, in the Accounting Safeguards Order, the Commission found that accounting safeguards remained essential to protecting ratepayers. SBC's proposal that the Commission eliminate the 43-03 report would prevent the Commission from monitoring the extent to which ILECs are allocating costs using direct assignment, indirect attribution, or the general allocator.<sup>20</sup> This would, for example, prevent the Commission from monitoring

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<sup>16</sup>SBC Petition, Exhibit C, p. 3.

<sup>17</sup>See ARMIS Order, 5 FCC Rcd at 5770.

<sup>18</sup>In the Matter of Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, Notice of Proposed Rulemaking, CC Docket No. 80-286, released October 7, 1997.

<sup>19</sup>ARMIS Order, 5 FCC Rcd at 5770.

<sup>20</sup>SBC Petition, Exhibit C, p. 3. SBC believes that the entire 43-03 report should be eliminated and that the Commission should rely on the regulated/nonregulated data shown in the 43-01 report. This would eliminate the detail in columns (c)-(h) of the 43-03 report, as well as Class A accounting detail.

whether the ILEC has used direct assignment whenever possible, as is required by the Joint Cost Order.<sup>21</sup>

Because of the continuing importance of accounting information and cost allocation processes, the Commission should adopt its tentative conclusion that any further reduction in reporting requirements for ARMIS financial, cost allocation, and access charge data would impair its ability to guard against improper cost allocations, to assess the impact of its policies on incumbent LECs, and to monitor the development of competition in the telecommunications marketplace.<sup>22</sup> The Commission should, at a minimum, maintain the current level of reporting detail. This objective can be achieved most efficiently by building on the current system of reports. While, as SBC and Ameritech suggest, there is some duplication of information in the ARMIS 43-01, 43-02, 43-03 and 43-04 reports, the Commission should not adopt SBC and Ameritech's proposals to consolidate these reports. The Commission should not expend its limited resources on the extensive redesign of ARMIS reports that would be required by the proposed consolidation.

#### **B. Service Quality and Infrastructure Reports**

In its petition, SBC argues that the ARMIS 43-05, 43-06, and 43-07 reports "have outlived their usefulness and should be eliminated."<sup>23</sup> SBC contends that the service quality and infrastructure reports were adopted solely because of concerns that ILECs would reduce

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<sup>21</sup>Joint Cost Order, 2 FCC Rcd at 1318.

<sup>22</sup>Notice at ¶13.

<sup>23</sup>SBC Petition, Exhibit C, p. 3.

service quality and infrastructure investment under price caps, and that these reports can be eliminated because “[t]hese problems have not materialized.”<sup>24</sup>

The Commission has, however, indicated that it intends to maintain, if not expand, the service quality and infrastructure reports. In the Price Cap Performance Review Order, the Commission observed that “[t]he service quality and infrastructure monitoring systems may . . . need updating and improving to keep pace with the introduction of new technologies and services and the development of competition.”<sup>25</sup> It is only by updating the infrastructure report that the Commission can ensure that incentive regulation continues to “encourage LECs to develop their infrastructure and promote innovation through the introduction of new service offerings.”<sup>26</sup>

The collection of service quality and infrastructure data not only permits the Commission to evaluate the impact of price cap regulation, but is essential to the Commission’s exercise of its statutory responsibilities. Indeed, to exercise these statutory responsibilities, the Commission should expand the scope of service quality and infrastructure reporting. The infrastructure report is, for example, essential to the Commission’s exercise of its statutory responsibilities under Section 254(c)(1) of the Act. Pursuant to Section 254(c)(1), the Commission shall periodically establish a definition of universal service, taking into account such factors as the extent to which a telecommunications service is “being deployed in public telecommunications networks by

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<sup>24</sup>Id.

<sup>25</sup>1995 Price Cap Performance Review Order, 10 FCC Rcd at 9121.

<sup>26</sup>LEC Price Cap Order, 5 FCC Rcd at 6829.

telecommunications carriers.” In the Universal Service Order, the Commission specifically stated that it would rely on ARMIS reports to determine whether a proposed service is being deployed in public telecommunications networks.<sup>27</sup> In order for the ARMIS infrastructure report to provide this information, it must be updated to capture data on an array of new network technologies that may be deployed in ILEC networks.

Furthermore, Section 706 of the Telecommunications Act of 1996 requires the Commission to encourage the deployment of advanced telecommunications capability. In order to evaluate whether its policies are achieving the objectives of Section 706, the Commission should expand the existing infrastructure report to collect data on recent advances in network technology that could, if deployed by the ILECs, support advanced telecommunications services.<sup>28</sup>

Finally, pursuant to Section 251 of the Act and Section 51.309 of the Commission’s Rules, the ILECs have the duty to provide nondiscriminatory access to network elements on an unbundled basis at any technically feasible point. Implementation of these provisions requires that the Commission collect comprehensive information about the architecture of the ILECs’ networks. For example, information concerning ILEC deployment of digital

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<sup>27</sup>Federal-State Joint Board on Universal Service, Report and Order, CC Docket No. 96-45, released May 8, 1997, ¶107.

<sup>28</sup>See In the Matter of Inquiry Concerning the Deployment of Advanced Telecommunications Capability, Notice of Inquiry, CC Docket No. 98-146, August 8, 1996, at ¶84.

loop carrier (DLC) equipment, which is not currently collected in ARMIS, would be invaluable in the Commission's recently-initiated advanced services proceeding.<sup>29</sup>

### III. Conclusion

For the reasons stated herein, the Commission should, at a minimum, maintain the level of reporting detail provided by the existing ARMIS reports.

Respectfully submitted,  
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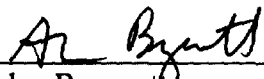
August 20, 1998

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<sup>29</sup>In the Matters of Deployment of Wireline Services Offering Advanced Telecommunications Capability, Memorandum Opinion and Order and Notice of Proposed Rulemaking, CC Docket No. 98-147, released August 7, 1998, at ¶¶169-172. See Common Carrier Bureau Solicits Comments on Proposed Modifications to ARMIS 43-07 Infrastructure Report, Public Notice, 13 FCC Rcd 5083, ¶10.

STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on August 20, 1998.

  
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## **CERTIFICATE OF SERVICE**

I, Vivian I. Lee, do hereby certify that copies of the foregoing Comments were sent via first class mail, postage paid, to the following on this 20th day of August, 1998.

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